

MINUTES OF THE CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

March 16, 1999

The Capital Projects and Bond Oversight Committee met on Tuesday, March 16, 1999, at 1:00 PM, in Room 129 of the Capitol Annex. Representative Jodie Haydon, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jodie Haydon, Chairman; Senator Tom Buford; Representatives Robert Damron, Paul Marcotte, and Jim Wayne.

Guests: John Cubine, Hydee Hawkins, Jim Huggins, David McKnight, and Steve O'Daniel, Attorney General's Office; Roger Burge, Ron Carson, Bill Hintze, and Allen Holt, Governor's Office for Policy and Management; Mark Board and Rex Hunt, Finance and Administration Cabinet; Commissioner Armond Russ and Jim Abbott, Department for Facilities Management; Bart Hardin and Tom Howard, Office of Financial Management and Economic Analysis; Dr. Robert Tarvin, School Facilities Construction Commission; Woody Baldwin, Brooks Giles, Jr., and Carson Smith, Kentucky State University; Gary Cloyd and Gary Grogan, Kentucky Community and Technical College System; Mary Allen, Dall Clark, and Ken Clevidence, University of Kentucky; Larry Owsley, University of Louisville; Commissioner Bob Arnold, Department for Local Government; Bob Benson, Louisville-Jefferson County Regional Airport Authority; David Bratcher, Cabinet for Economic Development; Riggs Lewis; Joseph Trauth and Julie McGehee, Corporex, Inc.; Richard Tanner, Kentucky Magistrates and Commissioners Association; Richard Smothermon, Department of Information Systems; Robert Knox, Ashland, Inc.; John Cooper, Gray Construction; Joe Gray, Administrative Office of the Courts; Kim Burch, Kim Link, Lola Lyle, and Scott Varland, LRC.

LRC Staff: Mary Lynn Collins, Pat Ingram, Jack Affeldt, Lou Pierce, and Shawn Bowen.

Press: Michael Collins, *Kentucky Post*; Patrick Crowley, *Kentucky Enquirer*; and Chris Gilligan, WLKY.

Senator Buford made a motion to approve the minutes of the February 16, 1999 meeting as submitted. The motion was seconded by Representative Damron and passed by voice vote.

Chairman Haydon reviewed correspondence items in members' folders, including the Kentucky Lottery Corporation's monthly financial status report for January 1999 and a response from Mr. Don Mullis, Executive Director of the Office of Financial Management and Economic Analysis, relating to the Kentucky Infrastructure Authority grant for the Water Resource Development Commission that the Committee approved last month.

Chairman Haydon noted that also included in members' folders was correspondence from the Governor's Secretary of the Cabinet and State Budget Director, Crit Luallen, regarding the Kentucky Electronic Workplace of Employment Services. This project was authorized under Senate Bill 296, and sponsored by the Committee's Vice Chair, Senator Robert Leeper. Chairman Haydon said, with the Committee's concurrence, an invitation will be extended to Secretary Luallen to provide a status report on the project at a future meeting.

Chairman Haydon said the first agenda item was a report by the Attorney General's Office relating to the investigation of procurement of a design/build team for construction of the Kenton County Courthouse and parking garage. He noted that because of the Committee's heavy agenda, the Committee would focus on the Attorney General's report, but would make time available at next month's meeting for anyone wishing to respond to the report. He also called attention to a statement in the members' folders issued by Corporex, the company which received the contract to design and build the courthouse and parking garage. He then called on John Cubine, Director of the Division of Administrative Services in the Attorney General's Office.

Mr. Cubine introduced other staff members from the Attorney General's Office: Jim Huggins, Director of the Public Corruption Unit; Steve O'Daniel, Investigator for the Public Corruption Unit; and Hydee Hawkins, Prosecutor in the Division of Special Prosecutions.

Mr. Huggins began the presentation by explaining the investigation was initiated after information relating to the procurement process for design and construction of a new courthouse, jail, and parking facility in Covington, Kentucky, appeared in Northern Kentucky newspapers. Two companies that lost the project bid for design and construction of a new courthouse, the Wessels Construction and Development Company and Carroll Properties, had filed a civil lawsuit against Kenton County alleging violation of procurement laws. Kenton County later agreed to pay \$850,000 to settle the civil lawsuit. Based on that information, the Public Corruption Unit opened a preliminary inquiry on February 19, 1998. During the inquiry, requests were made by some Kenton County officials for a thorough investigation, including Commissioners Bernard Moorman and Steve Arlinghaus, newly appointed Kenton County Judge Executive

Rodney Cain, Commonwealth Attorney Donald Buring, and County Attorney Gary Edmondson. A full investigation was opened on March 26, 1998.

As lead investigator, Mr. O'Daniel briefed the Committee on the findings of the 14-month investigation. He said in the fall of 1995, Kenton County officials began plans for a parking garage which they had committed to the General Assembly they would build to serve the Northern Kentucky Convention Center. They also decided to expand the project to include a new county jail and a new courts administration building. At that time, the estimated cost was in excess of \$36 million, and was the largest procurement Kenton County officials had ever undertaken. Corporex officials were included in initial meetings with Kenton County officials to discuss the project. At some point, a suggestion was made to use KZF, an architectural firm in Cincinnati with long standing ties to Corporex. County officials advertised for design/build proposals and assembled a procurement team that narrowed the proposals down to three: Wessels Construction, Carroll Properties, and Corporex.

Mr. O'Daniel said the first determination that his office made in the investigation was what type of procurement was used: competitively sealed bid in which all records are considered public information once opened or competitive negotiated bid in which certain information remains confidential until an award is made. Based on interviews conducted and the totality of evidence, Mr. O'Daniel said they determined that procurement was by competitive negotiated bid, and the information contained in the proposals was confidential and should have remained confidential until an award was made.

Once received, bids were secured in the county safe for safe keeping until the official opening in April of 1996. However, prior to the opening, Mr. Bill Butler, President of Corporex, showed his company's bid to then Kenton County Judge Executive, Clyde Middleton, during an air flight the two took to the West Coast. Mr. O'Daniel said this is the first of three inappropriate contacts that were never reported to other procurement team members.

At some point, the procurement team made a determination there should be some limited exposure to the bid information and presentations by the potential vendors. On March 22, 1996, Deputy Judge Executive George Neack, the procurement team leader, sent a memo to all three bidders outlining the procedures for opening the proposals which read: "Your proposals will be opened publicly on April 2 prior to your presentation. Once your proposal is opened, the information becomes a public record. Property site acquisition should not be publicly addressed. If the proposals are given to the press, then any and all such information will be edited out prior to the release." Prior to that opening, the county received requests from Corporex and Wessels, both in writing and orally, that proprietary information contained in their bids be withheld from public

disclosure. As a result, Deputy Judge Neack made an oral announcement that certain proprietary information contained in the proposals would not be released to the media. The bidders were not allowed to attend each other's presentations.

Mr. O'Daniel said Judge Middleton told investigators that after Corporex made the final presentation that day, he received a call from Mr. Butler, who instructed him to take the bids home so Mr. Butler could later come by and review them. Subsequently, Mr. Butler picked up the bid documents at Judge Middleton's home and made copies before returning them. This meeting was never reported to the procurement team, and did not become known until December 1996, about six or seven months after award of the bid.

Mr. O'Daniel said Mr. Butler used the bid documents to compile a summary assessment and a comparison of the three bids, highlighting the Corporex bid. Mr. Butler told investigators he gave the summary information to Judge Middleton and Commissioner Bernard Moorman; neither of those contacts were reported to the procurement team.

After Mr. Butler's review of the bids, he was allowed to raise his bid by \$1.6 million, which he later amended to a \$450,000 increase. A short time later, Judge Middleton called a special meeting with the county commissioners, and a vote was taken to enter into sole negotiations with Corporex for the parking garage and court facility.

Mr. O'Daniel said as a result of the Attorney General's investigation, Judge Middleton acknowledged he knew the information contained in those bids was confidential, and he pleaded guilty to the misuse of confidential information. That plea was amended to official misconduct.

Mr. O'Daniel then turned the presentation back over to Mr. Cubine and Ms. Hawkins to discuss four recommendations which are:

1. Require construction projects meeting a certain financial threshold to comply with the Kentucky Model Procurement Code. (That code was incorporated into state statute in 1980, but is currently optional for governments.)
2. Require public officials to document and report procurement-related contact with bidders.
3. Include a definition of fraud in the procurement code and impose felony penalties.

4. Expand the misuse of confidential information to include persons other than public officials. (Criminal statutes, as currently written, only address the misuse of confidential information by public officials.)

Mr. Cubine and Ms. Hawkins indicated the recommendations will not add to the cost or to the burden of local officials, but will strengthen the integrity of the bidding process.

Representative Wayne asked if the recommendations would apply to special districts. Mr. Cubine said that is correct. Representative Wayne then asked if the conduct uncovered during the investigation violated any other criminal laws currently in the Kentucky statutes. Ms. Hawkins said they considered several criminal statutes, including the perjury statute, the bribery statute, and the theft by deception statute. However, they concluded there was not enough evidence to pursue criminal prosecution under those particular statutes.

Representative Wayne noted that over a year was spent on the investigation and only one person was prosecuted. He asked if that meant there was not sufficient evidence to prosecute. Ms. Hawkins replied that they were limited to prosecuting Mr. Middleton because of current statutes. They prosecuted Mr. Middleton under the misuse of confidential information statute and that statute does not apply to the conduct of individuals who are not public officials. She said due to the fact that non-public officials could not be prosecuted under that particular statute, combined with their inability to apply the other three criminal statutes, they were unable to pursue any further criminal prosecution in the matter.

Representative Wayne asked if Kenton County procurement rules and procedures could have been more clearly documented and communicated. Ms. Hawkins said Kenton County has adopted its own procurement rules, which contains some elements of the model procurement code. At the same time, she said they did not always put things in writing, not all parts of the code were followed, and the code could have been clearer. However, she said her office was able to make a determination that the procurement was a competitively negotiated bid and they were able to pursue criminal prosecution against Mr. Middleton. While there were shortcomings, she said that did not prevent her and her colleagues from doing their job.

Representative Marcotte observed that the Kenton County procurement was not a traditional procurement in which the architect is hired to design the building and then a construction bid is issued. In this particular instance, Kenton County sought both steps in one package, a team that would both design and build the facilities. He asked if there is something inherent about procurement of a design/build team that makes the process more likely to be abused or manipulated.

Mr. Cubine responded that the design/build approach is permitted under Kentucky's Model Procurement Code and certainly is an option available for local governments as well as state government. He said the traditional approach with separate procurement of architect and construction is a more straightforward process. The design/build approach provides more flexibility, and because it combines the two processes, some people argue it can save time and money. However, he noted it also involves a much more complex evaluation process. Requests for Proposals under a design/build procurement usually have few parameters and proposals will vary in design and approach - unlike traditional sealed bids for construction, which are based on a common design. He also noted that more responsibility falls on the local government when using the design/build concept since there is no longer an independent architect to monitor the construction since architect and construction responsibilities are under the same firm. He said he did not know if design/build projects are more prone to abuse, but they require more oversight, monitoring, and sophistication.

Representative Marcotte said there is a moral here that applies to procurement at any level of government. There is always a danger when politicians get too chummy with suppliers or contributors, and this isn't the first time this has happened.

Mr. Cubine said that is the reason they are recommending the reporting of contact during procurement. He said that recommendation works two ways. First, it allows the local official to say when contacted by a bidder: "I will be glad to talk to you, but I will have to document it, and make that information available to other bidders". If the contact is inappropriate, the bidder has the option to end the conversation. If it is an appropriate contact, the conversation can proceed and it will benefit the procurement process. He said no one wants to prohibit communication because the way to get good quality bids is for people to understand what is wanted. The recommendation would also assure a process for reporting contacts so if someone complains that an official was seen talking to a bidder, the official can point to the record and show that the contact was properly documented. The reporting requirement will protect public officials.

Representative Damron said that many times individuals who stand to gain the most in procurement improprieties are not the public officials but those in the private sector seeking to do business with the government. He noted that during the session the Committee sponsored a bill, which was enacted, that placed penalties on those in the private sector that gained unfair advantage in obtaining state leases. He asked if more procurement training is needed and if that would have made a difference in Kenton County. Ms. Hawkins agreed that training is needed, but that is just one step. She said incorporating the recommendations they have made with increased training will assure the integrity of the system.

Representative Damron said he thought training was very important. He noted that a bill passed last session, House Bill 810, provides incentives for local officials to seek various types of training. However, he said the General Assembly did not provide the Department for Local Government with funds to provide the training. He said he hoped to find additional funds for the Department for Local Government to pay for the training that House Bill 810 mandates. He said if the changes recommended by the Attorney General are enacted, he would make sure there is adequate training on procurement for all local governments, whether it be cities, counties, special districts, or water districts. He said he hoped members of the Committee will support him in the effort.

Mr. Cubine spoke to the benefits of having uniform procurement procedures for large construction projects. Construction companies will not have to learn multiple rules. Projects should go more smoothly because local officials will be better able to rely on the expertise of various associations and the Department for Local Government. Uniform rules should give more confidence in the system, it should increase participation, and it should not increase the cost of project. Mr. Cubine noted one of the best safeguards in a procurement system is a broad understanding of the rules. Consequently, when something is done contrary to the rules, it is more likely to be discovered and dealt with immediately.

Representative Marcotte asked what would have been the outcome of the investigation if all the recommended changes had been in place. Ms. Hawkins said if there been a statute that addressed communication between the public official and the potential bidders or vendors, there is a good possibility that some of the things discovered in the investigation would have come to light a lot sooner and saved the Kenton County citizens a lot of tax money. She gave as an example the copy of the summary assessment Mr. Butler gave to Commissioner Moorman. Ms. Hawkins said that she would hope, had the recommended statutory changes been in place and Mr. Moorman had received adequate training, he would have documented that communication and the summary assessment would have been available to everyone.

She went on to say if the criminal provisions had been in place, they would have had the opportunity to consider criminal charges against others besides the public official. She also stressed the value of criminal penalties as a deterrent.

In response to a question by Senator Buford, Mr. O'Daniel explained the two losing bidders filed a civil suit in July of 1998 and it was during a deposition in December of that same year, that Mr. Butler revealed he had a meeting with Mr. Middleton to review the bids prior to the final award.

Senator Buford said it did not appear that Mr. Butler did anything wrong since Mr. Middleton was willing to show him the bids. Mr. O'Daniel said that is true, but Mr.

Middleton did not have the authority to show those bids to any of the bidders. If the procurement team had found that out right after it happened, there is a good possibility they could have taken that information, shared it with the other competitors, and leveled the playing field.

Representative Damron asked about the settlement money and how much the taxpayers of Kenton County had to pay for this problem. Ms. Hawkins said under the settlement with the losing bidders, Kenton County paid \$850,000. Corporex, in a separate settlement with the county, paid the county \$425,000. However, she said the county was still out \$425,000 which came directly out of the pockets of the taxpayers - the real losers in this case.

Representative Damron asked how many changes were made by Corporex to their bid after the meeting with Mr. Middleton. Mr. O'Daniel said they made approximately 100 changes. However, he said those type of changes are not uncommon under a competitive negotiated bid. Mr. Cubine said it is important to point out that at the time Judge Middleton showed Mr. Butler the bid documents, Corporex had not been awarded the final bid.

Representative Wayne asked if under the recommendations presented, the Attorney General's Office anticipated a requirement that bidders reveal subcontractors in their bids. He noted that citizens serving in government capacities, such as county magistrates, part-time judges, or board members of special districts, may have a financial interest in subcontractors.

Mr. Cubine said they had not considered that point, but it would be an easy provision to address. Representative Wayne said he hoped that, as they begin to work on this issue and design legislation, such a provision would be incorporated as an additional safeguard.

Ms. Hawkins said a similar problem identified in the Kenton County procurement was the need for disclosure by consultants. For example, one of the architects hired by the county to be an objective reviewer was Mr. Bill Hub, who had drawn up architectural plans for Corporex for a layout of a courthouse and a parking garage. The county officials who hired Mr. Hub were unaware he had a prior business relationship with Corporex. In addition, the architectural firm of KZF, who assisted in drafting the Request for Proposal, had a 20-year business relationship with Corporex. At least some of the county officials were unaware of the association. She suggested this was another area where disclosure should be considered.

Representative Marcotte asked if there was any type of insurance recovery. Mr. O'Daniel said it was his understanding that since criminal conduct by a county official

was involved, the insurance will not take care of this matter. He said that may still be in dispute, but that is his understanding as of this date.

Senator Buford asked, if the Committee prepares legislation on this matter, should consideration be given to instances where the construction manager has ties with the architect of the initial plans. Mr. Cubine said the key is full disclosure where everybody feels comfortable proceeding, recognizing those relationships. The problem comes when people are not aware of the relationships. In many communities, the number of available architects, engineers, and construction managers form a small pool, and care must be taken not to set up a situation where local companies are ineligible to bid on the project. He said he believed disclosure can go a long way to addressing some of these conflicts and getting these issues out front. Legislation has already been passed requiring local ethics codes which can address those situations if they are properly disclosed.

Representative Damron asked if an architect and the construction manager should be the same person. Mr. Cubine said because that is the case with the design/build approach, it makes sense to have someone else serve as a check on the design/build team. At the same time, he said, if a local government does not have that expertise in house and must hire someone to serve in that role, the savings to be gained by using a design/build team are reduced.

Representative Damron then asked Mr. Cubine if he was advocating additional rules for local governments using the design/build concept. Mr. Cubine said that is correct, especially if the local government does not have the in-house expertise to manage and oversee the project.

Chairman Haydon asked if the Committee should consider asking Mr. Bob Arnold, Commissioner for Local Government, to begin talking to local governments about the Attorney General's recommendations. Representative Wayne said he believed that would be an excellent first step. Representative Damron said a bill draft is now in process, and he agreed it was important to get Commissioner Arnold and his staff involved in the process as well as the Kentucky League of Cities and the Kentucky Association of Counties. He said he thought those entities, in addition to the Attorney General's Office and the Committee, would make for an effective team to work to enact legislation on this issue.

Mr. Joe Trauth, Corporex, Inc. said the proposed legislation would not have changed the outcome of this case because Kenton County did not follow its written procedures. Chairman Haydon asked Mr. Trauth to refrain from any further comments until the April meeting when time would be made available for anyone wishing to respond to the Attorney General's report.

Chairman Haydon then introduced Mr. Jim Abbott, Director, Division of Real Properties, and Mr. Bill Hintze, Deputy Budget Director, Governor's Office for Policy and Management, to discuss a proposed lease. Mr. Abbott said the Finance and Administration Cabinet has negotiated with the U.S. Postal Service to lease, with option to purchase, the old post office located at 620 High Street in Frankfort, Kentucky. The building is 15,972 square feet, and the primary user of the facility will be the Department for Administration in the Finance Cabinet. The Department plans to consolidate state postal service operations, which currently operate in five separate locations. He said the property is ideally located for meeting the needs of the state's postal operations, and could meet other existing needs in the area, such as a site for a central utility plant and to alleviate current parking shortages for state facilities in the area. The building is also located in an area being discussed as a potential site for the new Transportation Cabinet building.

Mr. Abbott said the terms of the agreement require an initial up-front payment of \$200,000 to the U.S. Postal Service, and annual lease payments of \$31,944 for ten years; at the end of the ten year period, the state will have the option to purchase the property for \$1. The initial payment of \$200,000 will come from the Department for Facilities Management Maintenance Pool, and the rental payments will be paid from state postal service agency receipts.

Representative Wayne asked what, if any, activities the Department for Facilities Management will have to defer from its maintenance pool because of the proposed expenditure. Mr. Hintze said they do not expect any unmanageable problems to occur as a result of this expenditure. He added the lease-purchase agreement is a legitimate use of funds as long as the acquisition does not exceed the statutory threshold of \$400,000. Maintenance pool funds are set aside for real property uses such as property improvement, renovation, repair, and demolition. There is always more need than money in the maintenance pool, and projects are selected on a case-by-case basis, depending on the individual merits of the project. If the Finance Cabinet depletes its maintenance pool, Mr. Hintze said they will first consider an advance of next fiscal year's maintenance pool appropriation, and then consider the Statewide Deferred Maintenance Pool, which is available to state agencies with needs in excess of their budgets. He said they did not believe they were creating a hardship, they were acting upon an opportunity, and in a way consistent with past policy.

Mr. Abbott said hopefully, once the state postal services operations are consolidated and new equipment is purchased, the state postal service will be able to reimburse the Department for Facilities Management Maintenance Pool the \$200,000 up-front payment.

Representative Wayne asked why the Department for Facilities Management did not include this item as part of its 1998 Executive Budget request. Mr. Abbott said at that point, they had not been approached by the Department for Administration about purchasing the property. He said once they began discussions, the U.S. Postal Service wanted to lease the building to the state at \$8.00 per square foot, with no option to purchase the property. He said negotiations eventually led to a lease agreement with an option to purchase the building below its appraised value. Mr. Abbott added that there are two other individuals interested in purchasing the property should the state not go forward with this lease.

Mr. Hintze said even if they had known of this opportunity during budget preparations, they would have probably treated it in the same fashion as they are now. He said a "line-item" appropriation for purchase of a specific piece of property in advance of negotiations would compromise the state's negotiating position.

Representative Marcotte asked if there will be any space and rent savings to the state when the proposed consolidation is complete. Mr. Abbott responded there will be some savings, and two locations will be dramatically reduced, but some physical presence at each of those five locations will still be required.

Senator Buford made a motion to approve the lease-purchase agreement with the U.S. Postal Service. The motion was seconded by Representative Damron and passed by voice vote.

Chairman Haydon then called on Mr. Larry Owsley, Vice President for Finance and Administration, University of Louisville (U of L), to discuss a scope increase for the Gheens Science Center and Rauch Planetarium project.

Mr. Owsley said in January 1998, the Committee approved construction of the new Rauch Planetarium, an unbudgeted project authorized for \$1,875,000 in private funds. He said this project came about as a result of the J.B. Speed Museum's request to expand and build a parking garage at the site of the old Rauch Planetarium. The museum leases from U of L the land on which the museum is located and has done so since the 1920s. U of L agreed to allow the planetarium to be razed, and planned to build a new planetarium at a later date. Mr. Owsley said, however, when the plan became known, there was a public outcry, and private funds, as well as county and city funds, were committed to rebuilding the planetarium immediately.

The University is now proposing a project scope increase of \$950,000 to increase the facility from 6,500 square feet to 9,043 square feet, and to purchase technology for additional scientific programming. Mr. Owsley said the Gheens Foundation is committing

\$350,000 and U of L is committing \$250,000 in agency funds; the University plans to raise \$350,000 in private donations, \$50,000 of which has already been pledged.

Senator Buford made a motion to approve the scope increase for the Gheens Science Center and Rauch Planetarium project.

Representative Damron said the Committee has a policy that states if projects are approved utilizing private donations, they are to be approved contingent upon the agency having in hand written commitments for those private donations. He asked that the original motion be amended to include this condition.

Senator Buford amended his original motion to approve the scope increase for the Gheens Science Center and Rauch Planetarium project contingent upon U of L having written commitments for the private donations. The motion was seconded by Representative Damron and passed by voice vote.

Mr. Ken Clevidence, Director, University of Kentucky (UK) Capital Construction Division, next presented four projects for the University. He introduced Mr. Dall Clark, Associate Director, Capital Construction Division. The first project Mr. Clevidence discussed was the renovation of the UK German House. He said the University is requesting authority to proceed with the renovation project in the amount of \$765,100: \$400,000 from a Max Kade Foundation grant, and \$365,100 in agency funds. Mr. Clevidence said the University has \$200,000 of the grant in hand, with a written commitment for the remaining \$200,000.

In response to a question from Chairman Haydon, Mr. Clevidence said this project was approved by the Council on Postsecondary Education at its March 15, 1999 meeting.

Mr. Clevidence next discussed an unbudgeted construction project in the amount of \$2,500,000 (\$1,600,000 private donation and \$900,000 UK Athletics Association funds) to construct a new football office complex adjoining the E. J. Nutter Training Facility. The complex will house offices for UK's football coaching staff. Mr. Clevidence said \$200,000 of the private donation is already in hand and the University has a written commitment for the remainder of the donation, \$1,400,000, which will be received in annual installments of \$100,000 for the next 14 years. In the meantime, Athletic Association funds will be advanced.

The third project reported by Mr. Clevidence was the Southeast Community College Falkenstine Hall Renovation project, which UK is managing. The University proposes to increase the scope of the project by \$64,700. The scope increase will be funded with student fees in a technology account at Southeast Community College, and will be used to install seating (including associated conduit, wiring, junction boxes, etc.)

and paneling in the theater and to install a kitchenette unit in the lounge area, which serves as support space to the theater and television studio. The revised project scope will be \$664,700.

The last item Mr. Clevidence discussed was a plan by the University to consolidate two projects at the UK Medical Center for purposes of efficiency and cost savings. The University plans to replace a magnetic resonance imaging unit (\$2,500,000 restricted funds) and a neuro-radiography unit (\$1,500,000 restricted funds). Siemens Medical Systems, the vendor for the projects, has agreed to a 10% price reduction if the two projects are combined. The consolidation of the projects will not increase the scope of the individual projects.

Representative Damron made a motion to approve the four projects for the University of Kentucky as presented. The motion was seconded by Senator Buford and passed by voice vote.

Representative Damron expressed interest in the Committee visiting the campus of the University of Kentucky in July or August and Mr. Clevidence said he would be happy to work with the Committee's staff to arrange a tour.

Chairman Haydon then called on Mr. Hintze and Commissioner Armond Russ, Department for Facilities Management, to discuss three projects submitted by the Finance and Administration Cabinet.

The first project Mr. Hintze discussed involved an agency-funded scope increase of \$60,000 for an enterprise disk storage group for the Department of Information Systems (DIS). This project was authorized as a line-item project by the 1998 General Assembly for \$460,000 (restricted funds). Mr. Hintze said after working through the EMPOWER Kentucky program with the Management Administrative and Reporting System (MARS) project, DIS realized it needed more storage for enterprise e-mail servers. The revised project scope will be \$520,000.

Mr. Hintze next discussed a cost overrun with federal and agency funds for the Kentucky State University Community Education Center project. This project was approved by the Committee as an unbudgeted federally-funded construction project for \$334,736 in November 1995. He said after three rounds of bids and scaling the project back, the University needs to increase the project scope by \$89,830 to meet the low construction bid. The scope increase will be funded with \$74,118 in agency funds and \$15,712 in federal funds. The revised project scope will be \$583,950.

The final project Mr. Hintze discussed was a project scope increase for the Kentucky Community and Technical College System (KCTCS) South Central Regional

Postsecondary Education Center in Clinton County. Mr. Hintze said this project was appropriated \$6,537,000 in bond funds by the 1998 General Assembly, and received supplemental Federal Empowerment Zone funding of \$1,309,399 in December 1998. Mr. Hintze said the current project scope increase, \$218,000, will also be funded with Federal Empowerment Zone moneys, and will be used to upgrade the technology and equipment to be placed in the facility. The revised project scope will be \$8,064,399.

Representative Damron made a motion to approve the three Finance projects as presented. Senator Buford seconded the motion, which was passed by voice vote.

Chairman Haydon then introduced Mr. David Bratcher, Cabinet for Economic Development, to discuss an economic development bond (EDB) grant. Mr. Bratcher said the Cabinet for Economic Development recommends an EDB grant in the amount of \$1,334,000 to the Kenton County Airport Board to assist Ashland, Inc. in the construction of an aircraft hangar at the Cincinnati/Northern Kentucky International Airport in Boone County. Last summer the company considered relocating its corporate headquarters from Ashland to an out-of-state location. At that point, Mr. Bratcher said the Cabinet offered the grant as an incentive for Ashland, Inc. to remain in Kentucky. The company ultimately decided to relocate to Covington, Kentucky. As a condition of the grant, the hangar will be owned by the Kenton County Airport Board and leased to Ashland, Inc. for \$1 per year for 20 years. At the end of the lease, ownership of the hangar will revert to the Airport Board. Ashland, Inc. will also be required to maintain in Boone and Kenton Counties a combined total of 100 full-time jobs, with an average salary of \$85,000, through December 31, 2003.

Representative Marcotte made a motion to approve the EDB grant for the Kenton County Airport Board. The motion was seconded by Representative Damron and passed by voice vote.

Next, Mr. Tom Howard, Deputy Director, Office of Financial Management and Economic Analysis (OFMEA), presented bond issue reports. The first item Mr. Howard discussed was a new bond issue report for Kentucky Housing Corporation (KHC) Housing Revenue Bonds, 1999 Series A and B (non-Alternative Minimum Tax (AMT) and AMT bonds) and 1999 Series C Housing Revenue Notes (AMT Notes). Mr. Howard said KHC Housing Revenue Bonds, 1999 Series A and B will finance mortgages for first time and low-to-moderate income Kentuckians. The gross proceeds for the Series A & B bonds are \$55,000,000 and \$61,435,000 for the Series C bonds; the anticipated interest costs for the Series A and B bonds is 5.12 % and 2.95% for the Series C bonds; the bonds are expected to be rated AAA by Moody's and by Standard and Poor's; and the proposed date of sale is March 25, 1999. Mr. Howard said the bond issue is a negotiated sale with Kutak Rock as bond counsel; Merrill Lynch & Company as underwriter; Peck, Shaffer & Williams as underwriter's counsel; and Chase Manhattan Trust Company as trustee.

Mr. Howard then discussed a new bond issue report for Murray State University Housing and Dining System Revenue Bonds, Series N. The proceeds from this issue will fund fire safety and maintenance improvements to housing and dining facilities. Mr. Howard said the net proceeds are \$5,547,000; the expected interest rate is 5.08%; the proposed date of sale is April 20, 1999; and the bonds are expected to be rated AAA by Standard and Poor's. The bonds will be sold through competitive bid with Peck, Shaffer & Williams as bond counsel and Seasongood & Mayer as financial advisor. The trustee has not been determined.

Mr. Howard then discussed Northern Kentucky University Consolidated Educational Buildings Revenue Refunding Bonds, Series K. These bonds will be issued to refund Series F and G bonds issued for the Fine Arts Center and library improvements. Mr. Howard said the net proceeds are \$11,902,631; the total present value savings are estimated to be \$725,623; and the expected interest rate is 4.51%. The bonds will be sold through competitive bid with Rubin & Hayes as bond counsel; Seasongood & Mayer as financial advisor; and Huntington Bank, Inc. as trustee. The underwriter will be selected at the time of sale.

Representative Damron made a motion to approve the three new bond issues as presented. The motion was seconded by Senator Buford and passed by voice vote.

Mr. Howard next presented a follow-up report for State Property and Buildings Commission Revenue Refunding Bonds, Project No. 62. These bonds were issued to refund State Property and Buildings Commission Projects 54 and 56 bonds, which were originally scheduled to be issued in May 1998, but were not issued because unfavorable market conditions existed at the time.

The gross proceeds are \$31,550,000; the true interest cost is 4.58%; the bonds were rated A2 by Moody's, A+ by Standard and Poor's and by Fitch Investors Service; and the first call date is September 1, 2009 at 101%. The bond issue was a negotiated sale with Chapman and Cutler as bond counsel; Peck, Shaffer & Williams as underwriter's counsel; Merrill Lynch as senior underwriter; OFMEA as financial advisor; and Bank of Louisville as trustee.

Chairman Haydon said this bond issue was approved at an earlier Committee meeting and no further action is required.

Chairman Haydon then asked Mr. Howard to present six new School Facilities Construction Commission (SFCC) bond issues, none of which required a tax increase: Ballard Co. - \$255,000 for improvements to the high school; Grant Co. - \$800,000 for improvements to the middle school; Paris Ind. (Bourbon Co.) - \$611,000 for renovations

and improvements to various district schools; Providence Ind. (Webster Co.) - \$585,000 for improvements to an elementary school; Raceland-Worthington Ind. (Greenup Co.) - \$350,000 for construction of three elementary school classrooms; and Todd Co. - \$2,320,000 to partially refund 1994 bonds.

Senator Buford made a motion to approve the school bond issues with SFCC participation in debt service. The motion was seconded by Representative Wayne and passed by voice vote. Representative Damron abstained from the vote, citing a possible conflict of interest.

Chairman Haydon said there were five 100% locally-funded school bond issues: Frankfort Ind. (Franklin Co.) - \$1,630,000 for improvements to the high school; Leslie Co. - \$270,000 to purchase six school buses; Pulaski Co. - \$550,000 to purchase school buses; Todd Co. - \$1,350,000 for elementary school classroom additions; and Trigg Co. - \$9,580,000 for renovation and construction of a middle school.

Chairman Haydon said no further action was required on these locally-funded school bond issues.

Chairman Haydon said enclosed in members' folders were four information items: a status report on the Justice Cabinet's capital projects; a Capital Projects Update (staff briefs); local capital construction projects memoranda of agreement approved by the Government Contract Review Committee at its March 9, 1999 meeting; and a staff report on Kentucky Private Activity Bond Capacity Allocation.

The next Committee meeting is scheduled for April 20, 1999 at 1:00 p.m. in Room 129 of the Capitol Annex.

With there being no further business, Senator Buford made a motion to adjourn the meeting. The motion was seconded by Representative Wayne and passed by voice vote. The meeting was adjourned at 2:45 p.m.